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Message Text

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44
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PA-01 PRS-01 /082 W
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R 071608Z AUG 75
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TO SECSTATE WASHDC 4624
INFO AMEMBASSY BONN
AMEMBASSY LUXEMBOURG
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AMCONSUL ANTWERP
USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: ECRP, EFIN, BE
SUBJECT: GOVERNMENT ANNOUNCES PRELIMINARY 1976 BUDGET

1. SUMMARY. PRELIMINARY BELGIAN GOVERNMENT BUDGET FOR FY76 PROJECTS OPERATING EXPENDITURES OF BF 719.3 BILLION AGAINST EXPECTED RECEIPTS OF BF 702.4 BILLION, LEAVING BF 16.9 BILLION DEFICIT. SPENDING RISE REFLECTS RISING COSTS DUE TO PERSISTENT INFLATION RATE PLUS UMEMPLOYMENT AND SOCIAL BILL OF CURRENT RECESSION. RECEIPTS EXPECTED TO GROW MORE SLOWLY IN FACE OF BELOW-NORMAL BUSINESS ACTIVITY AND OFFICIAL DETERMINATION AVOID NEW TAX MEASURES. OPERATING DEFICIT, WHICH LIKELY TO RISE EVENTUALLY TO MATCH OR EXCEED THIS YEAR'S PROJECTED BF 30 BILLION, ADDED TO BF 142.7 BILLION INVESTMENT SPENDING WILL UNDOUBTEDLY PROVIDE SOME STIMULUS TO LETHARGIC BELGIAN ECONOMY. IT REMAINS TO BE SEEN HOW MUCY DEMAND BELGIAN GOVERNMENT PREPARED TO CREATE, HOWEVER, IN VIEW OF ITS
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OVER-RIDING FEAR OF A NEW WAVE OF INFLATION AND POSSIBLE

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DETERIORATION OF BELGIUM'S VITAL TERMS OF TRADE.
END SUMMARY.

2. AFTER A PROLONGED AND DIFFICULT CABINET SESSION ON JULY 29, THE GOVERNMENT HAS ANNOUNCED THE MAIN LINES OF ITS 1976 BUDGET PROPOSAL (FOR YEAR BEGINNING JAN. 1), TO BE SUBMITTED TO PARLIMANE WHEN IT RECONVENES IN OCTOBER. CONTRARY TO USUAL BELGIAN PRACTICE AT THIS STAGE, DRAFT BUDGET IS ALREADY IN DEFICIT - BY BF 16.9 BILLION. SPENDING IN OPERATING BUDGET PROJECTED AT BF 719.3 BILLION, 11.4 PERCENT OVER CURRENT 1975 EPXENSES, AND RECEIPTS AT BF 702.4 BILLION. MOST OF INCREASE WILL GO FOR WAGE/PRICE RISES PLUS UNEMPLOYMENT AND SOCIAL COSTS OF CURRENT RECESSION. SEPARATE PUBLIC INVESTMENT BUDGET PEGGED AT BF 142.7 BILLION, A 14 PERCENT JUMP OVER THIS YEAR, WITH PRIMARY EMPHASIS ON HEALTH SERVICES, HOUSING, AND PUBLIC TRANSPORTATION. EMBASSY WILL SUBMIT DETAILED REPORT ON BUDGET WHEN IT FORMALLY PRESENTED THIS FALL.

3. BUDGET DEFICITS ARE NOT POPULAR IN BELGIUM. GOVERNMENT PORTRAYING THIS ONE AS NECESSARY FOR ECONOMIC REVISAL. FINANCE MINISTER WILLY DE CLERCQ HAS ATED THAT DEFICIT PLUS RISE IN PUBLIC PROJECT SPENDING REQUIRED TO REFLATE BELGIUM ECONOMY IN TANDEM WITH WEST GERMANY, FRANCE, DENMARK AND BENELUX NEIGHBORS IN LINE WITH RECENT EC RECOMMENDATIONS. BUDGET MEASURES ANNOUNCED THIS WEEK WILL AT BEST NOT DO TOO MUCH MORE THAN COVER PRICE RISES, HOWEVER, UNLESS INFLATION DIPS SIGNFICANTLY BELOW GOVERNMENT PROJECTION OF 9.3 PERCENT FOR 1976. MORE SUBSTANTIAL FISCAL STIMULUS WILL RATHER COME, IF IT DOES, FROM TRADITIONAL SUPPLEMENTARY APPROPRIATIONS DURING COURSE OF YEAR. SUCH ADDITIONAL EXPENDITURES WILL PROBABLY LIFT ACTUAL 1975 BUDGET DEFICIT OVER BF 30 BILLION, FIGURE FOR 1976 SEEMS BOUND ULTIMATELY TO MATCH OR EXCEED THIS, UNLESS 1976 GNP GROWTH TOPS TWO PERCENT NOW FORECAST.

4. ON RECEIPT SIDE, GOVERNMENT HAS ANNOUNCED THAT LIMITED OFFICIAL USE

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THERE WILL BE NO RPT NO NEX TAXES OR TAX INCREASES IN 1976. WITH 1975 RECEIPTS OF FAR RUNNING WELL BELOW EXECTIONATIONS, SITUATION THUS WILL BE VERY TIGHT. THIS EVIDENT INGOB'S REFUSAL TO LOWER TVA ON INVESTMENT GOODS FROM 5 TO 2 1/2 PERCENT NEXT YEAR, AS SCHEDULED. THIS MOVE, FOLLOWING TWO PREVIOUS POSTPONEMENTS, WILL DISAPPOINT DOMESTIC AND FOREIGN INVESTORS AND, TO SOME DEGREE, ADVERSELY AFFECT BUSINESS CLIMATE.

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5. BELGIANS CLEARLY PREPARED TO ACCEPT SUCH COSTS, HOWEVER, IN ORDER TO BOLSTER FLAGGING TAX INCOME TO PAY AT LEAST SOME ECONOMIC RECOVERY BILLS OUT OF CURRENT RECEIPTS. DESPITE REAL CONCERN WITH CURRENT RECESSION, GOVERNMENT LEADERS REMAIN HAUNTED BY POSSIBILITY OF NEW WAVE OF INVLATION, THIS TIME OF DEMAND - PULL VARIETY. THEIR PERFORMANCE IN UNACCUSTOMED ROLE AS OVERT DEFICITORY SPENDERS WILL THUS CONTINUE TO REFLECT OVERRIDING PREOCCUPATION WITH FUTURE PRICE COMPETITIVITY IN INTERNATIONAL MARKETS, WHICH ARE ULTIMATELY THE ONLY REAL HOPE OF REVIVED DEMAND FOR TRADE-ORIENTED BELGIAN ECONOMY.RENNER

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